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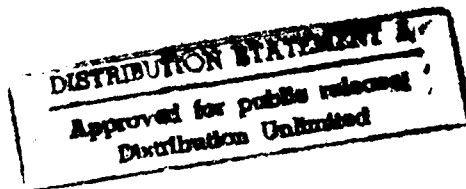
Regional Security in Latin America:
U.S. Economic and Military Options

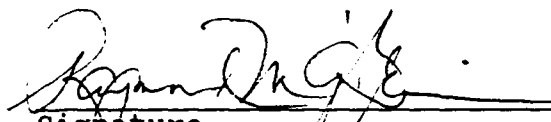
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A paper submitted to the faculty of the Naval War College in partial satisfaction of the requirements of the Department of National Security Decision Making.

The contents of this paper reflect my own personal views and are not necessarily endorsed by the Naval War College or the Department of the Navy.




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The Cold War is over. The Berlin Wall has fallen and Germany is reunited, promising to be a major partner in the European Economic Community (EC). The world's attention is focused on renewed nationalist struggles in the republics of the former Soviet Union and even more so in the Balkans. The Middle East, especially the Persian Gulf region, still bears watching as an area with intense internal struggles and the potential for threat to the worldwide supply of petroleum. At the same time, economic challenges from Japan and Southeast Asia are perceived to threaten U.S. economic strength. So why should the United States care about Latin America, which for most of the Cold War was considered to be nothing but another arena in which to play out the East-West struggle?

The answer is that because of democratization, the United States has an unprecedented opportunity to formulate an enduring policy toward a region that will increasingly affect our own economic well-being. That policy, according to President Bush in the *National Security Strategy of the United States*, is to "continue to support an international economic system as open and inclusive as possible, as the best way to strengthen global economic development, political stability and the growth of free societies."¹ While this policy is certainly not restricted to Latin America, President Bush goes on to describe the North American Free Trade Agreement (NAFTA) between the United States, Canada, and Mexico, and the Enterprise for the Americas Initiative (EAI) as a means to

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foster economic ties in the hemisphere. Another consideration is that the Unified Commanders, organized by region, are frequently called upon to testify before Congressional committees and subcommittees in Defense Department budget battles. Thus, USCINCLANT and USCINCSOUTH will become increasingly involved in fighting for the mix of forces deemed most suitable/critical to operations in their areas of responsibility in and around Latin America. This paper addresses the ways in which the economic and military policies of the United States toward Latin America will support the U.S. National Security Strategy by helping to strengthen Latin American political and economic stability.

Non-Traditional Security Concerns

Despite the profusion of freely elected governments, Latin America is still a dangerous and potentially unstable region. Certainly the problems there do not threaten world security and peace. They do not even threaten U.S. security in the traditional sense. But the threat of drugs and mass immigration northward do threaten U.S. interests. These "non-traditional security concerns"² have not been declared vital U.S. interests in the way President Carter declared access to Persian Gulf oil to be vital during his 1980 State of the Union address. But the U.S. is already using the armed forces to interdict drugs flowing northward, and to aid other countries in eradicating them. And there has even been talk

of finding new missions for U.S. ground forces to patrol U.S. borders in order to stem immigration.

Since Latin America carries relatively low geopolitical weight, where does it fit in the New World Order now that the world is less polarized? Since the 1950s the Soviets sponsored insurrections to draw U.S. attention from their other adventures, knowing the U.S. would not tolerate unfriendly regimes in what is considered "our" hemisphere. But even before the breakup of the Soviet Union, President Gorbachev was reducing aid to Cuba and Nicaragua, and cutting it altogether to Marxist-Leninist groups in other Latin American countries.

With the end of the Cold War, the U.S. has a great opportunity to foster continued political stability, especially the flourishing of democracy, in Latin America. And along with democratic governments, incipient economic reforms are creating a chance for growth, perhaps leading to decreased emigration, alternatives to drug cultivation, less social inequality that feeds insurgency, and increased markets for U.S. exports.

Cyclical Nature of U.S.-Latin American Relations

The history of U.S.-Latin American relations is cyclical. The U.S. has tended to ignore events there until some threat to its interests leads the U.S. to intervene politically, diplomatically, economically, and/or militarily. This

inattention-alarm-intervention cycle has especially been the case in the Caribbean/Central American region, where there are more U.S. economic interests (private investments), geopolitical considerations (Panama Canal, SLOCs for NATO reinforcement, containment), and proximity to the homeland (Cuban missile crisis). Recently Latin American leaders have expressed concern that the U.S. will disengage once again, this time in favor of providing economic aid to emerging Eastern European states, to the detriment of Latin American economies.³ Their fears are well-founded: consider the \$7.1 billion debt owed to the U.S. by Egypt but written off in reward for its support of U.S. policy in the Persian Gulf war. And in 1991 President Bush mobilized Western governments to forgive 50 percent of Poland's \$30.8 billion debt in reward for political and economic reforms.^{4,5} Continuing this trend, President Clinton will soon meet with Russian President Yeltsin for the first time. Indications are that he supports providing Russia economic aid to foster political stability in that country.

Until recently, U.S. strategy in the region was designed to counter the Soviet Union. As a counter-strategy, the usual U.S. response was to tolerate or even actively support, train, and equip right-of-center regimes as the best alternative (for the U.S.) to a government with Soviet leanings.

In the 1960s and 1970s most Latin American countries experienced some type of authoritarian government, usually

military. U.S. observers often considered such regimes as the lesser of two evils, the alternative being some type of Marxist-Leninist government. Scholars and social scientists went so far as to declare that democracy was not "right" for Latin America, that it did not fit their history or culture. Often authoritarianism/corporatism was seen as the most effective form of government to keep Latin American economies under control and allow growth.⁶ With the rare exception of General Pinochet's regime in Chile, which returned businesses nationalized by the Allende government to their original owners (or privatized them), authoritarian governments initiated or perpetuated statist policies with dismal economic results.⁷

The emergence of democratic governments throughout the 1980s culminated with the election of Violeta Barrios de Chamorro in Nicaragua in 1990. While one could make the argument that U.S. support for the Contras during the Reagan era had an influence on the defeat of the Sandinistas, free elections in other countries appear to have occurred without overt, direct U.S. influence.

Fragility of Latin American Democracy

But the recent examples of Haiti and Perú illustrate the fragility of Latin American democracies. President Aristide's ouster in Haiti on September 30, 1991, should not be surprising in light of the almost total lack of democratic

institutions there. On the other hand, President Alberto Fujimori's coup in Perú on April 5, 1992 (putatively because the Peruvian judiciary and legislature hindered the struggle against insurgents and drug interests) is more troubling considering the progress in that country since the 1979 constitution. In addition to these successful coups, Venezuela and Argentina have experienced several coup attempts in recent years, the latest one in Venezuela occurring in November 1992.

As long as economic conditions do not improve under the new democratic governments in Latin America the danger of regression increases. President Salinas de Gortari of Mexico said "We know that any economic reform takes time and demands sacrifices, because if hopes are thwarted, the sense of future can be lost, only to be replaced by nostalgia for the past."⁸ But despite crushing debt in many Latin American countries, it is heartening to see that there has been an increase in economic growth in the last two years.

In the 1990 Report on Economic and Social Progress in Latin America, The Inter-American Development Bank (IADB) assessed that governments in the region helped to release market forces by reducing their activist economic planning role. The report cited three factors that caused the change:

- The debt crisis focused attention on raising exports to acquire foreign currency, eliminating

unrealistically high exchange rates and lowering trade barriers.

-A new intellectual climate which discredited central government planning and market intervention and encouraged privatization.

-The successful examples of fast-growing Asian economies whose policies are market and export oriented.⁹

Toward Liberalized Economic Policies

As Mark Falcoff has observed, Latin American governments "have been forced to reshape their own domestic economic systems to make them more productive" in dealing with debt obligations, and that "lacking any other alternative, the governments and parties concerned finally have decided to do the right thing."¹⁰ The IADB report lent support to the Enterprise for the Americas Initiative announced by President Bush on June 27, 1990. The shift from statist to market-oriented economies in the region opens the door to regional and hemispheric free trade zones.

The economic shift in Latin America and the collapse of socialist economies (and governments) elsewhere in the world vindicate the economist Friedrich A. Hayek, who challenged the statist policies of left and right equally. Hayek argued in *The Road to Serfdom* that economic intervention by governments ultimately had unintended consequences which reduced

individual rights, and that the free market was the most intelligent planner for economic growth."¹¹

Hernando de Soto continued these thoughts in his influential book *The Other Path*. Using statistical data compiled by his Instituto Libertad y Democracia (ILD), he describes how the statist system in Perú "stacks the deck" against the majority of the population by making it unaffordable or impossible for them to gain access to the formal economy. He makes the case that Perú's law-ridden and bureaucratized system is more concerned with redistributing wealth than it is in creating it. Redistribution is defined in terms of "conceding monopolies or favored status on a small group of elites that depend on the state, and upon which the state is dependent for political support."¹² In fact, it is not considered unusual in Latin America for elite families to have members loyal to rival political factions, thus ensuring that whoever is in power, the family maintains favor with the government. In Nicaragua, two of Violeta Chamorro's grown children supported her UNO coalition, and the other two supported the Sandinistas.

Forcing the Economy Underground

In response to this lack of access, the "have nots" form what de Soto calls the "informal economy", or black market. They run bus routes, invade unoccupied land parcels and build communities, and set up unofficial marketplaces--all without

bureaucratic approval and without the state benefitting from taxation on the informal enterprises. The phenomenon is not limited to Perú; informal economies flourish in Third World countries throughout Latin America, Africa, and Asia. Until the telephone company in Argentina was privatized, "spidermen" were hired to provide telephone service. The state-owned telephone company took up to five years to install telephones, while the spidermen, dressed in black, could do it overnight by scaling walls, cutting someone else's phone line, and running it to the new "customer".¹³

In addition to the revenue loss to the state, there are costs to the informal economy: enterprises can not grow without paying usurious capital costs; they can not plan for the future; they are vulnerable to theft and extortion with little access to formal legal and judicial institutions; and they are extremely vulnerable to natural crises with little access to insurance.

Legalization is one response to these pitfalls. According to de Soto's study, participants in the informal economy want to be legal. Street vendors attempt to get stalls in the official markets. Neighborhood groups who eventually gain legal title to their homes implement sanitary and aesthetic improvements once their community is secure.

Another response is emigration. Even illegal immigrants in the U.S. know that they have access to credit and insurance, with police and judicial protection available. Of

course many are still vulnerable in the U.S. because they do not take advantage of these institutions out of fear of deportation, but they know that will, imagination, and a desire to work will be rewarded with success.

While privatization is spreading throughout Latin America, removing the state from many economic enterprises, other economic reforms that would harness the informal economy remain to be implemented. Privatization returns sectors of the formal economy to private hands, but has nothing to do with modernizing the legal and economic bureaucracy that thwarts the creative efforts of those in the informal economy, resulting in the perception that the only gains are to the "haves". Indeed, in Venezuela just prior to the unsuccessful February 1992 coup attempt, a poll indicated that 81 percent had little or no confidence in President Carlos Andrés Pérez. They were reacting to rising prices, falling wages, and shoddy public services perceived as being caused by fiscal austerity, debt restructuring, and free-market reforms which have yielded new wealth without necessarily sharing it more equitably.¹⁴

The U.S.-based aid group Acción International is trying to address the informal economy by providing short-term small business loans of \$200-400 and financing them with Latin American commercial banks in consolidated portfolios at market rates. As of 1990, Colombia had 25,000 businesses of 10 employees or fewer with loans under this program. Acción hopes to expand to 250,000 businesses in Colombia alone by the

end of the decade. With their affiliates in 12 other Latin American countries, Acción expects to administer 800,000 loans by 1995. So far the repayment rate is a phenomenal 98 percent.¹⁵ Latin American governments should embrace this type of program as part and parcel of economic reform, and the U.S. government should express strong moral, if not financial, support as part of EAI.

Mexico's experience with privatization so far has been the most successful. Since 1983 under President Miguel de la Madrid, Mexico has instituted trade and fiscal reforms. The number of parastatals (state-owned companies) dropped from 1,155 in 1982 to 536 in 1990. The sale or liquidation of parastatals is considered a key to reduction of the Mexican budget deficit. The problem of inequitable distribution of new wealth from privatization has been addressed by job preservation agreements and use of privatization proceeds for public and social service projects such as education and housing. Other concessions to parastatal employees include generous severance pay agreements and discounted stock options with favorable financing deals.¹⁶

The Means of U.S. Policy

The means to further U.S. aims in Latin America are political/diplomatic, foreign aid, economic influence, and military options. U.S. political and diplomatic influence has deteriorated throughout the region. Most countries pursue

their own courses of international relations without looking to the United States for approval. Our sometimes heavy-handed intervention in the past has not been forgotten, resulting in an increased anti-Americanism. U.S. support for the democratization process should not be blind or absolute. The United States should indicate clearly that elected governments are only one part of democracy, and that solid democratic institutions and rule of law must be established for long-term success. When Perú's President Fujimori dissolved the Peruvian legislature, the U.S. properly reduced the level of security assistance to demonstrate disapproval. The goal of U.S. policy should be to support and not to try to control these changes.

When President Bush announced the proposed U.S.-Mexico Free Trade Agreement (since expanded to NAFTA) and the Enterprise for the Americas Initiative in June 1990, he noted that "prosperity in our hemisphere depends on trade, not aid".¹⁷ This was also the message the Latin American leaders were giving him. More foreign aid and debt was exactly what they did not want.

NAFTA and EAI support free market domestic economies by providing for regional and hemispheric free trade arrangements to provide an outlet for exports and easier capital flow. Canada and Mexico are the first and third largest trading partners of the U.S. respectively, and, combined with the United States, encompass 360 million people--equal in

population to the European EC. NAFTA negotiations began on June 12, 1991, with U.S. objectives to eliminate tariffs and non-tariff barriers (quotas, import licenses, etc.), establish an open investment climate, and achieve consensus on copyrights, patents, and trademarks.

In May 1991 the U.S. Congress extended "fast track" procedures to allow the President to present a trade agreement to Congress for approval without the possibility of amendment. The U.S. State Department estimates that with each additional \$1 billion in exports to Mexico, 20,000 U.S. jobs are created. From 1987 to 1990 as Mexico began to eliminate or reduce tariffs, U.S. exports to Mexico more than doubled from \$12B to \$28B.¹⁸

The EAI proposed a massive free trade pact encompassing the entire Western Hemisphere, from Alaska to Tierra del Fuego. This agreement will create a unified market of 700 million people. The NAFTA framework, bilateral agreements, and sub-regional agreements in the works (Caribbean Basin, Southern Cone) provide starting points with 16 agreements covering 31 countries already signed. EAI rests on three pillars:

- Expanding trade by working with the countries of the region through the Uruguay Round of the GATT and by entering into free trade agreements with the ultimate goal of a hemisphere-wide free trade system;

-Promoting investment in the region and helping countries compete for capital by reforming policies that have discouraged private investment; and

-Building on successful U.S. efforts to ease debt burdens and to increase incentives for reform by offering additional debt measures (debt-for-nature).¹⁹

Neither NAFTA nor EAI are without their critics. Labor union opposition has centered on anticipated job losses. Environmentalists are concerned that jobs in "dirty" industries will migrate to countries with lax enforcement standards. The Clinton administration exudes ambiguity on NAFTA. Although he continually professed support for NAFTA during the 1992 campaign, the President's varied constituencies include Vice-President Gore and other environmentalists as well as labor unions and other trade protectionists. Still, his Trade Representative and Commerce and Treasury Secretaries proclaim support for NAFTA.²⁰ "Debt-for-nature" swaps are seen to offer a means to channel some of Latin America's billions of dollars of debt into conservation. Brazil has already agreed to devote \$100 million a year to saving the Amazon rain forest if banks would discount its debt.²¹ Yet while the U.S. Treasury professes commitment to debt relief, the Clinton administration's economic proposal slashes \$278 million from EAI debt-reduction over a five year period.²² Such disarray and competing interests within the Administration threaten to weaken or scuttle perhaps the most

promising opportunity for Mexican, Latin American, and U.S. cooperation to be seen for decades.

A Multilateral Investment Fund (MIF) administered by the Inter-American Development Bank was created in February 1992. President Bush sought an annual U.S. contribution of \$100 million for 5 years. Japan, Canada, several European countries and 13 Latin American countries have also pledged to contribute, with a funding target of \$1.5 billion within five years.

If the United States wants to erase doubts as to its commitment to the EAI, it should make a strong case for approval of MIF funds by Congress and seriously consider the kind of generous debt forgiveness offered to Egypt and Poland. Like Egypt, Argentina supported Operations Desert Shield/Desert Storm, sending two ships. And, like Poland, Argentina has enormous economic needs, has restructured its economy along market lines, and has demonstrated its commitment to democracy. As Hakim and Lowenthal argued in a recent *Current* article, "Most nations of Latin America meet all three criteria and deserve the same relief that was extended to Poland".²³ Another demonstration of U.S. commitment should be to accelerate these initiatives. It took almost two years from the launching of EAI for the MIF to be established. This is too long, and demonstrates to Latin America that our real interests may lie elsewhere.

Military Considerations

Although this paper has concentrated on economic options for U.S. strategy towards Latin America, three primary military options should be addressed: intervention, military aid, and covert operations.

Even with expanded democratic governments in Latin America, insurgents, terrorists, and narcotraficantes pose serious threats to security. From 1945 to 1990 there were over 80 Third World conflicts resulting in 15-30 million deaths according to Patrick Brogan in *The Fighting Never Stopped*.²⁴ The Sendero Luminoso (Shining Path) in Perú is the most well-known and arguably most vicious group in Latin America, likened to Pol Pot's Khmer Rouge in Cambodia. 10,000-15,000 have been killed in the Army-Sendero Luminoso struggle since 1980.²⁵ The capture of Abimael Guzman and other Sendero leaders may have weakened the movement but presumably has not destroyed it. Indeed, since Guzman's capture the Sendero terror has continued.

Intervention is the worst option from the standpoint of the Latin Americans. It seems increasingly unlikely that the United States would commit forces to the region lacking "vital" national interests, except for humanitarian missions with world support, such as Operation Restore Hope in Somalia. Even when the Organization of American States (OAS) considered sending peacekeeping troops to Haiti, the U.S. was not expected to be a participant in the multilateral force.

Any forward presence after U.S. troops leave Panama (unless the current Canal agreement is modified) will have to be provided by Naval deployments (like UNITAS) and U.S.-Latin American joint exercises. It would seem inconceivable that any ruler would allow a permanent U.S. presence after Operation Just Cause was launched from bases within Panama. Conceding this, any crisis response would have to be handled by mobile units, such as Marine Corps amphibious assault forces and/or expeditionary forces, and/or Army airborne forces. These forces would make up what General Colin Powell calls a "Contingency" Force Package in the National Military Strategy.²⁶

Military aid has been seen in the past as a means of propping up repressive military regimes in Latin America. The preponderance of aid provided by the U.S. today is ostensibly targeted for counter-narcotics operations. Hakim and Lowenthal argue that without emphasizing the role of civilian control over armed forces, U.S. military aid only strengthens potential military opponents to democratically elected governments.²⁷

Conventional and Special Operations Forces (SOF) have been used periodically for "nation-building". Under this concept, while conducting joint and combined operations, U.S. forces can be used to help develop communications and transportation infrastructure. And while such operations are underway, medical personnel are able to provide routine health

care in rural areas. But a GAO report in 1984 charged DOD with using "improper" funding sources (operating funds) for construction and civilian medical services in Honduras during exercises. The argument was that only Congress can earmark funds of that sort under Security Assistance or through the Agency for International Development.²⁸ Given that, nation-building may have to be of a limited nature.

Economic Prosperity and Regional Stability

Economic prosperity in Latin America is in the U.S. interest because it tends to strengthen democratic governments and help maintain political stability in the region. U.S. strategy should be to implement NAFTA and ultimately EAI to create economic opportunities in Latin America and the rest of the hemisphere, because prosperity through greater economic opportunity offers an alternative to drug cultivation and emigration. In the military sphere, U.S. strategy should be centered on aid and training offered to Latin American military and civilian leaders to enhance civilian control of the military and reduce the threat of government overthrow. As a hedge against terrorism and insurrections, U.S. military forces should focus on: Special Operations; nation-building and joint/combined operations with Latin American militaries to demonstrate forward presence; and contingency forces as cited in the National Military Strategy prepared to fight low intensity conflicts should that become necessary.

The end of the Cold War and the trend toward democracy in Latin America provide the United States with an opportunity to break the cycle of indifference and intervention that has characterized U.S. policy toward the region. By means of a coherent economic strategy designed to strengthen the Latin American market, the United States will go a long way toward establishing the conditions for long-term peace and economic prosperity while safeguarding its own security interests at an affordable cost.

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